

**JACKSON COUNTY SCHOOL DISTRICT**

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**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2008**

**JACKSON COUNTY SCHOOL DISTRICT**

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**JACKSON COUNTY SCHOOL DISTRICT**

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Jackson County School District  
McKee, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Jackson County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jackson County School District as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of Jackson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



The CPA. Never Underestimate The Value.™

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson County School District's basic financial statements. The additional information shown on pages 34 and 35 and 37 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 40 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Christian, Sturgeon & Associates, PSC*

London, Kentucky  
November 14, 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JACKSON COUNTY SCHOOL DISTRICT - MCKEE, KY**  
**YEAR ENDED JUNE 30, 2008**

As management of the Jackson County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$854,237 and the ending cash balance was \$371,853. This is a decrease of \$482,384. The majority of this difference can be explained by normal fluctuations in revenue flow. The District went into a reduction in cost mode to increase the ending balance to insure a minimal two percent contingency which was the goal we set as a District. We achieved that goal in our overall operation of the District. We have been able to show a growth factor which affords our District a small financial growth.
- The District's plan is to save as much money as possible in all areas of operations, including reducing personnel. The budget committee has worked hard to eliminate all positions possible without hurting the integrity of the District. The plan of personnel reduction will be tied directly to classified positions which will not have a direct impact on the instructional program. The services we will lose with the reductions will be compensated with other programs, service providers and wrap around services.
- A concerted effort was focused on saving as much as possible when purchasing in the areas of supplies, food, maintenance items and other materials. We have targeted our Food Service as a top priority for improvements. The positive ending balance in food services shows we have made a difference and we can keep that growth going if we keep working with the purchasing practices we have put into place through the leadership of our foodservice director.
- Our next major project will be a new Jackson County High School which will begin during the 2008-2009 school year. This will be a phased project with the first phase starting in November 2008. The District plans on spending \$8.8 million for this project, of which funding will consist of \$6.4 million in state monies and \$2.4 million from local bonding sources. This will give the District a facility that will house grades 10-12. We will use our current facility as a Freshman Academy which research indicates is a great way to educate children. This project will add extra operational cost to the budget with the extra cost being offset by a reduction in KISTA payments.

Phase 1 of the new high school was complete this year with a grant from the Jackson County Empowerment Zone which consisted of \$600,000 to build a football field for our newly started football team. This was a great addition to Jackson County as well as a great start for the NEW JACKSON COUNTY HIGH SCHOOL.

- Our District continues to look for outside funding streams as a way of enriching our efforts to be proficient by 2014.
- Our District remains committed to educational excellence by keeping teacher salaries high and the student-teacher ratio low.
- The General Fund had \$17.3 million in revenues, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and earned interest income.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JACKSON COUNTY SCHOOL DISTRICT - MCKEE, KY**  
**YEAR ENDED JUNE 30, 2008**

**District-wide financial statements.** The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care, adult education and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10-17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 18-33 of this report.

**DISTRICT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$10.7 million as of June 30, 2008.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JACKSON COUNTY SCHOOL DISTRICT - MCKEE, KY**  
**YEAR ENDED JUNE 30, 2008**

**Net Assets for the period ending June 30, 2008**

This is the sixth year that the District is following GASB 34 and comparing assets, liabilities and net assets. 2008 District-Wide Net Assets compared to 2007 follows:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,117,798	\$ 2,053,469
Non-current assets	<u>20,600,717</u>	<u>20,685,427</u>
<b>Total Assets</b>	<b><u>22,718,515</u></b>	<b><u>22,738,896</u></b>
Current liabilities	1,441,625	1,441,404
Non-current liabilities	<u>10,580,001</u>	<u>11,150,429</u>
<b>Total Liabilities</b>	<b><u>12,021,626</u></b>	<b><u>12,591,833</u></b>
<b>Net Assets</b>		
Investments in capital assets (net of debt)	8,197,265	7,552,183
Restricted	50,080	41,225
Unreserved fund balance	<u>2,449,544</u>	<u>2,553,655</u>
<b>Total Net Assets</b>	<b><u>\$ 10,696,889</u></b>	<b><u>\$ 10,147,063</u></b>

There have been no significant change in the financial position of the District since the last audit.

**Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2008, net of Interfund transfers and bond proceeds, were \$25.3 million.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the other revenue from state sources item with the ending actual revenue being \$3,424,312 more than budget or approximately twenty four percentage points. This variance is primarily the result of reflecting on-behalf amounts in revenue. The on-behalf revenue is not a budget item.
- The total cost of all programs and services was \$24.2 million net of debt service.
- General fund budget expenditures to actual varied significantly. The primary reason for the variance is the on-behalf amounts are included in actual expenditures but those on-behalf amounts are not budgeted.

The following table presents a summary of governmental funds revenue and expenditures, excluding transfers, for the fiscal years ended June 30, 2008 and 2007.



**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**JACKSON COUNTY SCHOOL DISTRICT - MCKEE, KY**  
**YEAR ENDED JUNE 30, 2008**

	<u>2008</u>	<u>2007</u>
<b>REVENUES</b>		
Local revenue sources	\$ 1,951,802	\$ 2,016,794
State revenue sources	18,144,352	16,505,538
Federal revenue	3,672,188	3,021,370
Other sources	118,985	85,573
Bond proceeds	<u>-</u>	<u>2,260,000</u>
<b>Total revenues</b>	<b><u>23,887,327</u></b>	<b><u>23,889,275</u></b>
<b>EXPENDITURES</b>		
Instruction	13,783,789	12,848,818
Student support services	1,182,411	1,099,758
Instructional support	1,700,693	1,477,374
District administration	459,863	448,473
School administration	573,247	505,831
Business support	397,331	251,283
Plant operations	1,760,389	1,548,637
Student transportation	1,877,145	1,686,024
Facilities acquisition and constuction	551,769	1,391,040
Community service activities	372,044	344,937
Debt service	<u>1,137,009</u>	<u>3,414,293</u>
<b>Total expenditures</b>	<b><u>23,795,690</u></b>	<b><u>25,016,468</u></b>
<b>Revenue in Excess of (Less than) Expenditures</b>	<b><u>\$ 91,637</u></b>	<b><u>\$ (1,127,193)</u></b>

The major factor in the above changes is the cost of renovation of Tyner Elementary School completed in 2007.

**General Fund Revenue**

The majority of general fund revenue was derived from state funding with local taxes making up 8% of total general fund revenue.

**Budget Allocation**

Site Based Decision Making Councils expended 52.3% of the general fund budget; the majority of the non-SBDM funds (13%) was spent serving children with special needs. The remaining 34.7% was expended in central support services. (Refer to Central Office Allocation for the breakdown of the central support services percent).

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
JACKSON COUNTY SCHOOL DISTRICT - MCKEE, KY  
YEAR ENDED JUNE 30, 2008**

**School Allocation**

Regular Instruction accounts for 73% of the school level expenditures.

**Central Office Allocation**

Central support services expenditures were Transportation 13%, Maintenance and Operations 11%, and Business Functions 10.7%.

**BUDGETARY IMPLICATIONS**

In Kentucky public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The board adopted a budget with a \$559,055 contingency (2.6%). The District ended the year with a \$638,638 contingency.

**CONTACTING THE JACKSON COUNTY SCHOOL DISTRICT MANAGEMENT**

Questions regarding this report should be directed to the Superintendent (606) 287-7181 or to Roxann Coffey, Director of Financial Services (606) 287-7181 or by mail at P.O. Box 217, McKee, Kentucky 40447.

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
June 30, 2008

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 496,412	\$ (124,559)	\$ 371,853
SFCC current receivable of bonds payable	218,917	-	218,917
Accounts receivable	1,191,989	216,027	1,408,016
Inventory	105,319	13,693	119,012
<b>Total current assets</b>	<u>2,012,637</u>	<u>105,161</u>	<u>2,117,798</u>
<b>Noncurrent Assets</b>			
SFCC long-term receivable of bond principal	1,366,391	-	1,366,391
Capital assets	28,485,651	812,618	29,298,269
Less: Accumulated depreciation	(9,478,131)	(585,812)	(10,063,943)
<b>Total noncurrent assets</b>	<u>20,373,911</u>	<u>226,806</u>	<u>20,600,717</u>
<b>Total assets</b>	<u>\$ 22,386,548</u>	<u>\$ 331,967</u>	<u>\$ 22,718,515</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 350,622	\$ 23,662	\$ 374,284
Accrued payroll and withholding obligations	120,808	-	120,808
Deferred revenue	123,718	-	123,718
Interest payable	70,793	-	70,793
Current portion of accrued sick leave	34,962	-	34,962
Current portion of bond obligations	717,060	-	717,060
<b>Total current liabilities</b>	<u>1,417,963</u>	<u>23,662</u>	<u>1,441,625</u>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of bond obligations	10,320,001	-	10,320,001
Noncurrent portion of accrued sick leave	260,000	-	260,000
<b>Total noncurrent liabilities</b>	<u>10,580,001</u>	<u>-</u>	<u>10,580,001</u>
<b>Total liabilities</b>	<u>11,997,964</u>	<u>23,662</u>	<u>12,021,626</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,970,459	226,806	8,197,265
Restricted for:			
Capital projects	50,080	-	50,080
Unrestricted	2,368,045	81,499	2,449,544
<b>Total net assets</b>	<u>10,388,584</u>	<u>308,305</u>	<u>10,696,889</u>
<b>Total liabilities and net assets</b>	<u>\$ 22,386,548</u>	<u>\$ 331,967</u>	<u>\$ 22,718,515</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2008

**FUNCTIONS/PROGRAMS**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>						
Instruction	\$ 14,388,793	\$ 69,791	\$ 3,499,020	\$ -	\$ -	\$ (10,819,982)
Support services:						
Student						
Instruction staff	1,204,023	137,798	-	(1,066,225)	-	(1,066,225)
District administrative	1,715,181	868,700	-	(846,481)	-	(846,481)
School administrative	469,303	-	-	(469,303)	-	(469,303)
Business	574,374	16,032	-	(558,342)	-	(558,342)
Plant operation and maintenance	401,562	21,540	-	(380,022)	-	(380,022)
Student transportation	1,331,181	53,730	-	(1,327,581)	-	(1,327,581)
Facilities acquisition and construction	2,032,443	-	-	(1,978,713)	-	(1,978,713)
Community service activities	-	362,331	1,196,425	1,196,425	-	1,196,425
Other	372,044	-	-	(9,713)	-	(9,713)
Interest on long-term debt	25,000	-	-	(25,000)	-	(25,000)
Total governmental activities	433,203	-	-	(433,203)	-	(433,203)
	<u>22,947,107</u>	<u>4,959,151</u>	<u>1,196,425</u>	<u>(16,718,140)</u>	<u>-</u>	<u>(16,718,140)</u>
<b>Business-type Activities</b>						
Food service	1,501,615	1,337,837	85,966	-	33,318	33,318
Adult education	31,122	14,585	-	-	(3,908)	(3,908)
Day care	91,538	74,551	-	-	(44)	(44)
Total business-type activities	<u>1,624,275</u>	<u>1,426,973</u>	<u>85,966</u>	<u>-</u>	<u>29,366</u>	<u>29,366</u>
Total school district	<u>\$ 24,571,382</u>	<u>\$ 6,385,124</u>	<u>\$ 1,282,391</u>	<u>(16,718,140)</u>	<u>29,366</u>	<u>(16,688,774)</u>

<b>General Revenues</b>		
Property taxes	1,344,392	1,344,392
Delinquent property tax	50,307	50,307
Motor vehicle taxes	365,794	365,794
Unmined minerals tax	6,193	6,193
Other taxes	11,802	11,802
Revenue in lieu of taxes	57,227	57,227
Investment earnings	103,523	103,523
State aid formula grants	15,388,659	15,388,659
Loss on sale of fixed assets	(9,016)	(9,016)
Loss compensation	24,441	24,441
Miscellaneous	78,953	80,278
Total general revenues	<u>17,422,275</u>	<u>17,423,600</u>
Change in net assets	704,135	734,826
Net assets - beginning (restated)	9,684,449	9,962,063
Net assets - ending	<u>\$ 10,388,584</u>	<u>\$ 10,696,889</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2008

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 673,766	\$ (423,414)	\$ (123,514)	\$ 369,574	\$ 496,412
Accounts receivable	222,702	565,515	403,772	-	1,191,989
Inventory	105,319	-	-	-	105,319
<b>Total assets</b>	<b>\$ 1,001,787</b>	<b>\$ 142,101</b>	<b>\$ 280,258</b>	<b>\$ 369,574</b>	<b>\$ 1,793,720</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 102,061	\$ 18,383	\$ 230,178	\$ -	\$ 350,622
Accrued payroll and withholding obligations	120,808	-	-	-	120,808
Current portion of accrued sick leave	34,962	-	-	-	34,962
Deferred revenue	-	123,718	-	-	123,718
<b>Total liabilities</b>	<b>257,831</b>	<b>142,101</b>	<b>230,178</b>	<b>-</b>	<b>630,110</b>
<b>Fund Balances</b>					
Reserved for:					
Inventories	105,319	-	-	-	105,319
Unreserved, designated for	-	-	50,080	369,574	419,654
Unreserved	638,637	-	-	-	638,637
<b>Total fund balances</b>	<b>743,956</b>	<b>-</b>	<b>50,080</b>	<b>369,574</b>	<b>1,163,610</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,001,787</b>	<b>\$ 142,101</b>	<b>\$ 280,258</b>	<b>\$ 369,574</b>	<b>\$ 1,793,720</b>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS**

June 30, 2008

Total fund balance per fund financial statements	\$ 1,163,610
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	19,007,520
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Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	1,585,308
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(11,367,854)</u>
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Net assets of governmental activities	<u>\$ 10,388,584</u>
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See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
Year Ended June 30, 2008

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
From local sources					
Property taxes	\$1,222,656	\$ -	\$ -	\$ 172,043	\$ 1,394,699
Motor vehicle taxes	365,794	-	-	-	365,794
Unmined minerals taxes	6,193	-	-	-	6,193
Other taxes	11,802	-	-	-	11,802
Earnings on investments	96,630	3,208	-	3,685	103,523
Other local revenues	-	45,741	24,050	-	69,791
State sources					
SEEK	11,759,591	-	-	198,780	11,958,371
Other	3,629,068	1,816,964	-	739,949	6,185,981
Federal sources	75,573	3,060,041	536,574	-	3,672,188
Revenue in lieu of taxes	57,227	-	-	-	57,227
Other revenues	46,063	399	-	-	46,462
<b>Total revenues</b>	<u>17,270,597</u>	<u>4,926,353</u>	<u>560,624</u>	<u>1,114,457</u>	<u>23,872,031</u>
<b>Expenditures</b>					
Instruction	10,284,769	3,499,020	-	-	13,783,789
Support services					
Student	1,044,613	137,798	-	-	1,182,411
Instruction staff	831,993	868,700	-	-	1,700,693
District administration	459,863	-	-	-	459,863
School administration	557,215	16,032	-	-	573,247
Business	375,791	21,540	-	-	397,331
Plant operation and maintenance	1,655,607	-	-	104,782	1,760,389
Student transportation	1,823,415	53,730	-	-	1,877,145
Facilities acquisition and construction	-	-	551,769	-	551,769
Community service activities	9,712	362,332	-	-	372,044
Debt service	-	-	-	1,137,009	1,137,009
<b>Total expenditures</b>	<u>17,042,978</u>	<u>4,959,152</u>	<u>551,769</u>	<u>1,241,791</u>	<u>23,795,690</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>227,619</u>	<u>(32,799)</u>	<u>8,855</u>	<u>(127,334)</u>	<u>76,341</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of fixed assets	15,296	-	-	-	15,296
Operating transfers in	12,416	45,215	-	852,456	910,087
Operating transfers out	(192,884)	(12,416)	-	(704,787)	(910,087)
<b>Total other financing sources (uses)</b>	<u>(165,172)</u>	<u>32,799</u>	<u>-</u>	<u>147,669</u>	<u>15,296</u>
<b>Net change in fund balances</b>	<u>62,447</u>	<u>-</u>	<u>8,855</u>	<u>20,335</u>	<u>91,637</u>
<b>Fund balance, July 1, 2007</b>	<u>681,509</u>	<u>-</u>	<u>41,225</u>	<u>349,239</u>	<u>1,071,973</u>
<b>Fund balance, June 30, 2008</b>	<u>\$ 743,956</u>	<u>\$ -</u>	<u>\$ 50,080</u>	<u>\$ 369,574</u>	<u>\$ 1,163,610</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2008

Net change in total fund balances per fund financial statements	\$ 91,637
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Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	169,777
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The proceeds of receipts of accounts receivable provide current financial resources and are reported in this fund financial statement but they are presented as a reduction of assets in the statement of net assets.	(211,773)
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Gains and losses are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the statement of activities.	(24,312)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	695,875
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(17,069)</u>
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Change in net assets of governmental activities	<u>\$ 704,135</u>
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See notes to financial statements



**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
June 30, 2008

<b>ASSETS</b>	<b>Food Service Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ (95,026)	\$ (29,533)	\$(124,559)
Other receivables	183,667	32,360	216,027
Inventory	13,693	-	13,693
<b>Total current assets</b>	<u>102,334</u>	<u>2,827</u>	<u>105,161</u>
<b>Noncurrent Assets</b>			
Capital assets	812,618	-	812,618
Less: accumulated depreciation	(585,812)	-	(585,812)
<b>Total noncurrent assets</b>	<u>226,806</u>	<u>-</u>	<u>226,806</u>
<b>Total assets</b>	<u>329,140</u>	<u>2,827</u>	<u>331,967</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	23,298	364	23,662
<b>Total current liabilities</b>	<u>23,298</u>	<u>364</u>	<u>23,662</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	226,806	-	226,806
Unrestricted	79,036	2,463	81,499
<b>Total net assets</b>	<u>\$ 305,842</u>	<u>\$ 2,463</u>	<u>\$ 308,305</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -**  
**PROPRIETARY FUNDS**  
Year Ended June 30, 2008

	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>Operating Revenues</b>			
Food service sales	\$ 111,130	\$ 879	\$ 112,009
Community service activities	-	28,693	28,693
Other operating revenues	-	1,325	1,325
<b>Total operating revenues</b>	<u>111,130</u>	<u>30,897</u>	<u>142,027</u>
<b>Operating Expenses</b>			
Salaries and wages	672,233	111,693	783,926
Professional and contract services	21,150	1,587	22,737
Supplies and materials	787,050	9,274	796,324
Depreciation	15,478	-	15,478
Other operating expenses	5,704	106	5,810
<b>Total operating expenses</b>	<u>1,501,615</u>	<u>122,660</u>	<u>1,624,275</u>
<b>Operating income (loss)</b>	<u>(1,390,485)</u>	<u>(91,763)</u>	<u>(1,482,248)</u>
<b>Nonoperating revenues (expenses)</b>			
Federal grants	1,222,105	-	1,222,105
State grants	115,732	89,136	204,868
Donated commodities	85,966	-	85,966
<b>Total nonoperating revenues (expenses)</b>	<u>1,423,803</u>	<u>89,136</u>	<u>1,512,939</u>
<b>Net Income (loss)</b>	33,318	(2,627)	30,691
<b>Net assets, July 1, 2007</b>	<u>272,524</u>	<u>5,090</u>	<u>277,614</u>
<b>Net assets, June 30, 2008</b>	<u>\$ 305,842</u>	<u>\$ 2,463</u>	<u>\$ 308,305</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
Year Ended June 30, 2008

	Food Service Fund	Other Enterprise Funds	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from lunchroom sales	\$ 114,721	\$ 879	\$ 115,600
Cash received from user charges	-	12,730	12,730
Cash received from other activities	-	1,325	1,325
Cash payments to employees for services	(574,062)	(111,693)	(685,755)
Cash payments to suppliers for goods and services	(719,967)	(10,597)	(730,564)
Cash payments for other operating activities	(5,704)	(106)	(5,810)
<b>Net cash provided by (used in) operating activities</b>	<u>(1,185,012)</u>	<u>(107,462)</u>	<u>(1,292,474)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition of capital assets	(4,220)	-	(4,220)
<b>Net cash (used in) capital and related financing activities</b>	<u>(4,220)</u>	<u>-</u>	<u>(4,220)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Nonoperating grants received	1,239,666	89,136	1,328,802
<b>Net cash provided by noncapital financing activities</b>	<u>1,239,666</u>	<u>89,136</u>	<u>1,328,802</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	50,434	(18,326)	32,108
<b>Cash and cash equivalents - beginning of year</b>	<u>(145,460)</u>	<u>(11,207)</u>	<u>(156,667)</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ (95,026)</u>	<u>\$ (29,533)</u>	<u>\$ (124,559)</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (1,390,485)	\$ (91,763)	\$ (1,482,248)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
State on-behalf payments	98,171	-	98,171
Depreciation	15,478	-	15,478
Donated commodities	85,966	-	85,966
Changes in assets and liabilities:			
Receivables	3,591	(15,963)	(12,372)
Inventory	6,245	-	6,245
Accounts payable	(3,978)	264	(3,714)
<b>Net Cash Provided by (Used In) Operating Activities</b>	<u>\$ (1,185,012)</u>	<u>\$ (107,462)</u>	<u>\$ (1,292,474)</u>
<b>Non-Cash Non-Capital Financing Activities</b>			
Donated commodities received from federal government	<u>\$ 85,966</u>	<u>\$ -</u>	<u>\$ 85,966</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS**  
June 30, 2008

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 118,887
Accounts receivable	<u>12,073</u>
<b>Total assets</b>	<u>\$ 130,960</u>
<b>Liabilities</b>	
Accounts payable	\$ 9,987
Due to student groups	<u>120,973</u>
<b>Total liabilities</b>	<u>\$ 130,960</u>

See notes to financial statements

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Jackson County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Jackson County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Jackson County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

Jackson County School District Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Jackson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Presentation

District-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

The district-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

**I. Government Fund Types**

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Basis of Presentation - continued

**I. Government Fund Types - continued**

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 40 through 43. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky law. This is a nonmajor fund of the District.

**II. Proprietary Fund Types (Enterprise Fund)**

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Basis of Presentation - continued

II. Proprietary Fund Types (Enterprise Fund) - continued

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education publication *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**Revenues - Exchange and Non-exchange Transactions** - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

**Nonexchange transactions**, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.



**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Accounting - continued

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.49 per \$100 valuation for real property, \$.50 per \$100 valuation for business personal property and \$.568 per \$100 valuation for motor vehicles.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	20 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Inventories

On district-wide financial statements inventories of supplies and materials are stated at cost and are expensed when used. On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method and the general fund inventory is stated at cost and uses the first-in, first-out method.

In the governmental funds balance sheets, reported inventories in the general fund are equally offset by a reserve which indicates that they do not constitute "available spendable resources" even though they are a component of total assets.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

Encumbrances

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2008 in the governmental funds balance sheet.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

**Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B - ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C - CASH AND CASH EQUIVALENTS**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, none of the District's bank balance was exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging bank's trust department in the District's name. The securities cannot be moved or redeemed without prior approval of the District. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE C - CASH AND CASH EQUIVALENTS- CONTINUED**

Cash and cash equivalents at June 30, 2008 consisted of the following:

	Bank Balance	Book Balance
Jackson County Bank	\$ 1,248,472	\$ 207,181
Bank of New York	1,321	1,321
Republic Bank & Trust	9	9
Huntington National Bank	<u>282,229</u>	<u>282,229</u>
	<u>\$ 1,532,031</u>	<u>\$ 490,740</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 496,412
Proprietary funds	(124,559)
Agency funds	<u>118,887</u>
	<u>\$ 490,740</u>

**NOTE D - RECEIVABLES**

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout each year, accounts and grants receivable from outside sources may be grouped into the following categories, (as stated in the District-wide financial statements):

	June 30, 2008 Balance
Accounts receivable from outside sources	
Accounts receivable	\$ 183,433
Taxes receivable	72,062
Grants receivable	<u>1,152,521</u>
	<u>\$ 1,408,016</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables when qualifying expenditures are incurred.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
Land and land improvements	\$ 2,245,107	\$ -	\$ -	\$ 2,245,107
Buildings and improvements	20,990,664	7,540	44,467	20,953,737
Technology	1,587,126	269,666	109,553	1,747,239
Vehicles	2,679,334	300,435	167,058	2,812,711
General equipment	185,683	4,600	-	190,283
Construction in progress	-	536,574	-	536,574
Totals at historical cost	27,687,914	1,118,815	321,078	28,485,651
Less accumulated depreciation	<u>8,825,859</u>	<u>949,038</u>	<u>296,766</u>	<u>9,478,131</u>
 Governmental Activities Capital Assets - Net	 <u>\$ 18,862,055</u>	 <u>\$ 169,777</u>	 <u>\$ 24,312</u>	 <u>\$ 19,007,520</u>
 <u>Business-Type Activities</u>				
Buildings	\$ 390,859	\$ -	\$ -	\$ 390,859
Technology	6,255	-	1,072	5,183
General equipment	<u>414,484</u>	<u>4,220</u>	<u>2,128</u>	<u>416,576</u>
Totals at historical cost	811,598	4,220	3,200	812,618
Less accumulated depreciation	<u>573,534</u>	<u>15,478</u>	<u>3,200</u>	<u>585,812</u>
 Business-Type Activities Capital Assets - Net	 <u>\$ 238,064</u>	 <u>\$ (11,258)</u>	 <u>\$ -</u>	 <u>\$ 226,806</u>

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 605,004
Student	21,612
Instruction staff	14,488
District administrative	9,440
School administrative	1,127
Business support	4,231
Plant operation and maintenance	137,838
Student transportation	<u>155,298</u>
	 <u>\$ 949,038</u>

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE F - LONG-TERM OBLIGATIONS**

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1995	\$ 1,600,000	3.90% - 5.05%
1997	1,885,000	3.70% - 5.15%
1997	61,724	4.00% - 4.60%
1998	885,000	3.90% - 4.40%
1998	443,775	3.50% - 4.20%
1999	86,000	3.80% - 4.45%
2000	2,555,000	5.00% - 5.75%
2002	2,050,000	3.20% - 4.50%
2004	250,000	3.10%
2004	500,000	0%
2005	1,615,000	3.00% - 4.35%
2005	597,062	3.00% - 3.625%
2005	3,155,000	3.15% - 4.15%
2007	2,260,000	3.40% - 3.80%

The District, through the General Fund, including the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Jackson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District, through the General Fund, is also obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kentucky Interlocal School Transportation Association for the purchase of school buses.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Assets since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:



**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE F - LONG-TERM OBLIGATIONS - CONTINUED**

Year	Jackson County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2008-09	\$ 498,143	\$ 349,755	\$ 218,917	\$ 57,771	\$ 1,124,586
2009-10	465,458	324,031	229,756	47,878	1,067,123
2010-11	470,461	306,343	123,839	40,421	941,064
2011-12	491,058	290,150	72,539	36,876	890,623
2012-13	505,325	273,058	74,184	34,456	887,023
2013-14	514,338	254,958	75,911	31,954	877,161
2014-15	534,381	236,180	72,751	29,416	872,728
2015-16	490,287	216,545	54,713	27,144	788,689
2016-17	513,224	197,918	56,776	25,082	793,000
2017-18	536,084	178,016	58,916	22,942	795,958
2018-19	553,832	157,056	61,168	20,690	792,746
2019-20	576,463	134,935	63,537	18,320	793,255
2020-21	1,108,968	106,105	66,032	15,825	1,296,930
2021-22	636,306	79,856	68,694	13,164	798,020
2022-23	663,502	51,933	71,498	10,360	797,293
2023-24	335,546	30,533	74,454	7,404	447,937
2024-25	352,410	16,010	77,590	4,267	450,277
2025-26	205,967	4,374	64,033	1,329	275,703
	<u>\$ 9,451,753</u>	<u>\$ 3,207,756</u>	<u>\$ 1,585,308</u>	<u>\$ 445,299</u>	<u>\$ 14,690,116</u>

On December 22, 2004, the Jackson County School District Finance Corporation issued \$500,000 in Special Obligations School Financing Bond Series 2004 as a Qualified Zone Academy Bond ("QZAB") pursuant to Section 1297E of the Internal Revenue Code, to finance capital projects of the District. The District made an up front payment of \$275,000 which will be held in trust and invested at rates that will produce sufficient earnings to pay off the bonds when they mature.

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2008 is as follows:

Governmental Activities	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bonded debt and lease obligations	\$ 11,732,936	\$ -	\$ 695,875	\$ 11,037,061
Accrued sick leave	235,000	25,000	-	260,000
	<u>\$ 11,967,936</u>	<u>\$ 25,000</u>	<u>\$ 695,875</u>	<u>\$ 11,297,061</u>

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE G - RETIREMENT PLANS**

The District contributes to the Teachers' Retirement System of Kentucky ("KTRS"), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes ("KRS").

Certified employees are covered under KTRS. KTRS also establishes the contribution rates. Funding for the plan is provided through member payroll withholdings of 9.855% of salary and matching State contributions. The matching contributions are paid by the Federal program for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost-sharing, multiple employer, public employers' retirement system. Funding for the plan is provided through payroll withholdings of 5% and a District contribution of 16.17% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$13,993,988. The payroll for employees covered under KTRS was \$10,400,817 and for CERS was \$3,278,614.

The contribution requirement for CERS for the years ended June 30, 2008, 2007 and 2006 were \$693,878, \$573,004, and \$510,129, respectively. The District has no contribution requirement to KTRS.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The KTRS and CERS each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 (KTRS) and Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 (CERS).

The District also offers employees the option to participate in a defined contribution plan under Section 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**NOTE H - LEASES**

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2008, aggregate cost for equipment and copier rentals was \$72,270.

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year Ended June 30, 2008

**NOTE I - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of moneys advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE J - LITIGATION**

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

**NOTE K - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

**NOTE L - RISK MANAGEMENT**

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE M - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Debt Service Fund	\$ 990
Adult Education Fund	2,583
Day Care Fund	44

**NOTE N - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
Year Ended June 30, 2008

**NOTE O - TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	Special Revenue	General	Indirect Cost Allocation	\$ 12,416
Operating	General	Special Revenue	Funds Transfer	45,215
Operating	General	Debt Service	Debt Service	147,669
Operating	Building	Debt Service	Debt Service	632,114
Operating	Capital Outlay	Debt Service	Debt Service	72,673

**NOTE P - INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2008, there were no interfund balances outstanding that would be reflected in the financial statements.

**NOTE Q - ON-BEHALF OF PAYMENTS**

For the year ended June 30, 2008 total payments of \$3,649,119 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances. These revenues and expenditures are not budgeted by the District.

**NOTE R – PRIOR PERIOD ADJUSTMENT**

Beginning net assets for the governmental activities has been restated to record long-term debt that was previously eliminated as a defeasance of debt. During the year ended June 30, 2007, an advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the District's long-term debt obligations. However, not all of the defeased debt was subject to the advance refunding and, as a result, the governmental activities net assets at June 30, 2007 is being corrected.

Beginning net assets for the governmental activities reconciles to the previously net assets at June 30, 2007, as follows:

Net assets June 30, 2007, as previously reported	\$ 9,869,449
Long-term debt	<u>(185,000)</u>
Net assets June 30, 2007, as restated	<u>\$ 9,684,449</u>

## **SUPPLEMENTARY INFORMATION**

**JACKSON COUNTY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2008

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 64,791	\$ 18,863	\$ 285,920	\$ 369,574
<b>Total assets</b>	<u>\$ 64,791</u>	<u>\$ 18,863</u>	<u>\$ 285,920</u>	<u>\$ 369,574</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
<b>Total Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balances</b>				
Unreserved, designated for	64,791	18,863	285,920	369,574
<b>Total fund balances</b>	<u>64,791</u>	<u>18,863</u>	<u>285,920</u>	<u>369,574</u>
<b>Total liabilities and fund balances</b>	<u>\$ 64,791</u>	<u>\$ 18,863</u>	<u>\$ 285,920</u>	<u>\$ 369,574</u>

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT****COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2008

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
From local sources				
Property taxes	\$ -	\$ 172,043	\$ -	\$ 172,043
Earnings on investments	-	-	3,685	3,685
State sources				
SEEK	198,780	-	-	198,780
Other	-	461,071	278,878	739,949
<b>Total revenues</b>	<u>198,780</u>	<u>633,114</u>	<u>282,563</u>	<u>1,114,457</u>
<b>Expenditures</b>				
Plant operation and maintenance	104,782	-	-	104,782
Debt service	-	1,000	1,136,009	1,137,009
<b>Total expenditures</b>	<u>104,782</u>	<u>1,000</u>	<u>1,136,009</u>	<u>1,241,791</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>93,998</u>	<u>632,114</u>	<u>(853,446)</u>	<u>(127,334)</u>
<b>Other financing sources (uses)</b>				
Operating transfers in	-	-	852,456	852,456
Operating transfers out	(72,673)	(632,114)	-	(704,787)
Proceeds from sale of bonds, net	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>(72,673)</u>	<u>(632,114)</u>	<u>852,456</u>	<u>147,669</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>21,325</u>	<u>-</u>	<u>(990)</u>	<u>20,335</u>
<b>Fund balance, July 1, 2007</b>	<u>43,466</u>	<u>18,863</u>	<u>286,910</u>	<u>349,239</u>
<b>Fund balance, June 30, 2008</b>	<u>\$ 64,791</u>	<u>\$ 18,863</u>	<u>\$ 285,920</u>	<u>\$ 369,574</u>

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL-GENERAL FUND**  
**Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original Tentative</u>	<u>Final Working</u>	<u>Actual</u>	
<b>Revenues</b>				
From local sources				
Property taxes	\$ 1,160,680	\$ 1,310,680	\$ 1,222,656	\$ (88,024)
Motor vehicle taxes	315,000	370,000	365,794	(4,206)
Unmined minerals taxes	2,350	2,350	6,193	3,843
Other taxes	500	7,500	11,802	4,302
Earnings on investments	101,000	111,000	96,630	(14,370)
State sources				
SEEK	11,686,083	11,759,591	11,759,591	-
Other	88,264	100,264	3,629,068	3,528,804
Federal - indirect	80,000	95,000	75,573	(19,427)
Revenue in lieu of taxes	43,000	43,000	57,227	14,227
Other revenues	32,500	46,900	46,063	(837)
<b>Total revenues</b>	<u>13,509,377</u>	<u>13,846,285</u>	<u>17,270,597</u>	<u>3,424,312</u>
<b>Expenditures</b>				
Instruction	7,136,470	7,370,431	10,284,769	(2,914,338)
Support services				
Student	915,873	949,705	1,044,613	(94,908)
Instruction staff	536,433	669,586	831,993	(162,407)
District administration	585,368	463,579	459,863	3,716
School administration	477,467	472,921	557,215	(84,294)
Business	356,005	358,277	375,791	(17,514)
Plant operation and maintenance	1,427,238	1,497,342	1,655,607	(158,265)
Student transportation	1,671,266	1,850,541	1,823,415	27,126
Debt service	147,669	147,669	-	147,669
Other expenditures	607,088	559,054	9,712	549,342
<b>Total expenditures</b>	<u>13,860,877</u>	<u>14,339,105</u>	<u>17,042,978</u>	<u>(2,703,873)</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(351,500)</u>	<u>(492,820)</u>	<u>227,619</u>	<u>720,439</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of fixed assets	-	-	15,296	15,296
Operating transfers in	-	-	12,416	12,416
Operating transfers out	(48,500)	(48,500)	(192,884)	(144,384)
<b>Total other financing sources (uses)</b>	<u>(48,500)</u>	<u>(48,500)</u>	<u>(165,172)</u>	<u>(116,672)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(400,000)</u>	<u>(541,320)</u>	<u>62,447</u>	<u>603,767</u>
<b>Fund balance, July 1, 2007</b>	<u>400,000</u>	<u>541,320</u>	<u>681,509</u>	<u>140,189</u>
<b>Fund balance, June 30, 2008</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 743,956</u>	<u>\$ 743,956</u>

See accompanying independent auditor's report



**JACKSON COUNTY SCHOOL DISTRICT**  
**COMBINED BALANCE SHEET - SCHOOL ACTIVITY FUNDS**  
June 30, 2008

	<u>McKee Elementary School</u>	<u>Sand Gap Elementary School</u>	<u>Tyner Elementary School</u>	<u>Jackson County High School</u>	<u>Jackson County Middle School</u>	<u>Total Agency Funds</u>
<b>ASSETS</b>						
Cash	\$ 45,323	\$ 1,309	\$ 22,697	\$ 38,253	\$ 11,305	\$ 118,887
Accounts receivable	<u>2,233</u>	<u>4,222</u>	<u>2,906</u>	<u>2,499</u>	<u>213</u>	<u>12,073</u>
<b>Total assets</b>	<u>\$ 47,556</u>	<u>\$ 5,531</u>	<u>\$ 25,603</u>	<u>\$ 40,752</u>	<u>\$ 11,518</u>	<u>\$ 130,960</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Accounts payable	\$ 3,585	\$ 2,634	\$ 71	\$ 3,385	\$ 312	\$ 9,987
<b>Total liabilities</b>	3,585	2,634	71	3,385	312	9,987
Fund balances:						
Unreserved	<u>43,971</u>	<u>2,897</u>	<u>25,532</u>	<u>37,367</u>	<u>11,206</u>	<u>120,973</u>
<b>Total liabilities and fund balances</b>	<u>\$ 47,556</u>	<u>\$ 5,531</u>	<u>\$ 25,603</u>	<u>\$ 40,752</u>	<u>\$ 11,518</u>	<u>\$ 130,960</u>

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - SCHOOL ACTIVITY FUNDS**  
Year Ended June 30, 2008

	<u>McKee Elementary School</u>	<u>Sand Gap Elementary School</u>	<u>Tyner Elementary School</u>	<u>Jackson County High School</u>	<u>Jackson County Middle School</u>	<u>Total Agency Funds</u>
<b>REVENUES:</b>						
Local sources	\$ 58,112	\$ 54,030	\$ 88,629	\$ 291,703	\$ 72,273	\$ 564,747
<b>EXPENDITURES:</b>						
Student body activities	<u>59,947</u>	<u>52,403</u>	<u>87,807</u>	<u>275,748</u>	<u>80,555</u>	<u>556,460</u>
Excess (deficit) of revenues over expenditures	(1,835)	1,627	822	15,955	(8,282)	8,287
<b>OTHER FINANCING SOURCES:</b>						
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures	(1,835)	1,627	822	15,955	(8,282)	8,287
<b>FUND BALANCE, July 1, 2007</b>	<u>45,806</u>	<u>1,270</u>	<u>24,710</u>	<u>21,412</u>	<u>19,488</u>	<u>112,686</u>
<b>FUND BALANCE, June 30, 2008</b>	<u>\$ 43,971</u>	<u>\$ 2,897</u>	<u>\$ 25,532</u>	<u>\$ 37,367</u>	<u>\$ 11,206</u>	<u>\$ 120,973</u>

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT****STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES -****JACKSON COUNTY HIGH SCHOOL ACTIVITY FUND**

Year Ended June 30, 2008

	<u>Fund Balances</u> <u>July 1, 2007</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances</u> <u>June 30, 2008</u>
Accounts:				
Academic Team	\$ -	\$ 870	\$ 459	\$ 411
American Red Cross	-	249	202	47
4-H Club	190	-	190	-
Band	142	3,965	3,622	485
Baseball Club	808	3,069	3,062	815
Boys Basketball	141	48,963	40,511	8,593
Girls Basketball	24	39,719	38,089	1,654
Beta Club	129	909	694	344
Bible Club	41	1,216	1,058	199
Cheerleaders	314	10,301	8,643	1,972
Cross Country	55	784	125	714
Dance Team	-	253	217	36
Drama	154	3,238	3,392	-
Family Career and Community				
Leaders of America	643	320	475	488
Fellowship of Christian Athletes	72	-	-	72
Football	3,261	7,327	7,827	2,761
Future Business Leaders of America	111	807	769	149
Future Farmers of America	125	41,640	40,964	801
General Fund	3,398	61,908	61,919	3,387
Golf	174	806	777	203
Greenhouse	-	1,595	1,595	-
Library	478	870	676	672
National Honor Society	712	2,921	2,092	1,541
Pep Club	738	-	164	574
Prom	-	6,710	6,710	-
Regional FFA	-	5,903	5,903	-
Scholarship Fund	550	-	550	-
Science Club	130	1,083	1,048	165
Seniors	-	34,685	34,514	171
Softball	319	3,396	2,981	734
Spanish Club	4,149	1,692	2,687	3,154
STLP	172	-	124	48
Teacher's Lounge	1,157	6,102	5,765	1,494
Volleyball	59	5,939	5,998	-
Yearbook	3,046	5,264	2,866	5,444
Young Republicans	55	-	-	55
Youth Service Center	65	4,074	3,955	184
Subtotals	<u>21,412</u>	<u>306,578</u>	<u>290,623</u>	<u>37,367</u>
Inter-fund Transfers	<u>-</u>	<u>(14,875)</u>	<u>(14,875)</u>	<u>-</u>
Totals	<u>\$ 21,412</u>	<u>\$ 291,703</u>	<u>\$ 275,748</u>	<u>\$ 37,367</u>

See accompanying independent auditor's report

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through State Dept. of Education:			
Title I Program	84.010	33-540-3107	\$ 211,939
Title I Program	84.010	33-540-3107M	9,261
Title I Program	84.010	33-540-3108	873,558
Title I Program	84.010	33-540-3108M	<u>38,127</u>
			<u>1,132,885</u>
 Title I, Part D	 84.010	 33-540-3147	 15,665
Title I, Part D	84.010	33-540-3148	<u>18,673</u>
			<u>34,338</u>
 Title I, Part D School Improvements	 84.010A	 33-540-3206	 36,001
Title I, Part D School Improvements	84.010A	33-540-3207	15,754
Title I, Part D School Improvements	84.010A	33-540-3208	<u>4,101</u>
			<u>55,856</u>
 Vocational Education	 84.048	 33-540-3487	 1,196
Vocational Education	84.048	33-540-3488	<u>19,270</u>
			<u>20,466</u>
 Relevant Instruction Grant	 84.048A	 33-540-3628	 868
 Special Education Cluster			
Special Education	84.027	33-540-3377	36,054
Special Education	84.027	33-540-3378	464,794
Special Education, Preschool	84.173	33-540-3437	12,147
Special Education, Preschool	84.173	33-540-3438	<u>25,231</u>
Total Special Education Cluster			<u>538,226</u>
 Title IV, Safe and Drug Free Schools and Communities	 84.186A	 33-540-4067	 10,605
Title IV, Safe and Drug Free Schools and Communities	84.186A	33-540-4068	<u>9,868</u>
			<u>20,473</u>
 Title VI	 84.298A	 33-540-3347	 445
Title VI	84.298A	33-540-3348	<u>3,949</u>
			<u>4,394</u>

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF EDUCATION - (Continued)</u></b>			
Title II, Part D, Education Technology	84.318X	33-540-4256	\$ 7,301
Title II, Part D, Education Technology	84.318X	33-540-4256A	6,325
Title II, Part D, Education Technology	84.318X	33-540-4257	4,408
Title II, Part D, Education Technology	84.318X	33-540-4258	940
			<u>18,974</u>
Commonwealth School Reform	84.332A	33-540-3086R	39,961
Reading First	84.357A	33-540-5087R	270,111
Reading First	84.357A	33-540-508TR	83,646
			<u>353,757</u>
Improving Teacher Quality	84.367	33-540-4018	238,829
Improving Teacher Quality	84.367	33-540-4019	22,693
			<u>261,522</u>
Rural Education Achievement Program	84.358B	33-540-3507	3,009
Rural Education Achievement Program	84.358B	33-540-3508	19,629
			<u>22,638</u>
Improving Literacy	84.364A	330-540-3877A	28,969
Improving Literacy	84.364A	330-540-3878A	164,149
			<u>193,118</u>
Save the Children	93.575	33-540-6588S	30,507
Service Learning Grant	94.004	33-540-6757	2,936
Passed Through Cabinet for Workforce Development:			
Adult Education	84.002	330-540-3737	3,574
Adult Education	84.002	330-540-3758S	11,585
Adult Education	84.002	330-540-3738	40,956
Adult Education	84.002	330-540-3738S	1,201
			<u>57,316</u>
Tech Prep Education	84.243	330-540-3638	8,123
Passed Through Daniel Boone:			
East KY Concentrated Employment	17.245	330-540-6057	2,071

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF EDUCATION - (Continued)</u></b>			
Passed Through Cumberland Valley ADD:			
Opportunities for Youth - Youthbuild	17.245	330-540-6617	\$ 29,602
Opportunities for Youth - Youthbuild	17.245	330-540-6618	16,005
			<u>45,607</u>
Passed Through Eastern Kentucky University:			
Gear Up	84.334A	330-540-3797E	6,412
Gear Up	84.334A	330-540-3797G	19,217
Gear Up	84.334A	330-540-3798C	4,917
Gear Up	84.334A	330-540-3798E	47,605
Gear Up	84.334A	330-540-3798G	98,528
Gear Up	84.334A	330-540-3798L	3,937
Gear Up	84.334A	330-540-3798M	2,916
Gear Up	84.334A	330-540-37989	2,500
Gear Up	84.334A	330-540-3798S	4,975
			<u>191,007</u>
<b>Total U.S. Department of Education</b>			<u>3,035,043</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Passed Through Center for Rural Development:			
UNITE Unlawful Narcotics Treatment	16.580	33-540-3007	935
UNITE Unlawful Narcotics Treatment	16.580	33-540-3008	42,445
			<u>43,380</u>
<b>Total U.S. Department of Justice</b>			<u>43,380</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
Passed Through KY River Foothills Development Council:			
Head Start Program	93.600		24,050
Passed Through Jackson County Empowerment Zone:			
Title XX SSA Empowerment Zone	93.585		534,727
			<u>558,777</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>558,777</u>

See accompanying independent auditor's report

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed Through State Dept. of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	57503 02 Z	\$ 720,197
National School Breakfast Program	10.553	57603 05 Z	398,558
Summer Food Program	10.559	57402 23 Z	<u>103,350</u>
Total Child Nutrition Cluster			<u>1,222,105</u>
Passed through Kentucky Department of Agriculture:			
Food Donation	10.550	N/A	<u>85,966</u>
<b>Total U.S. Department of Agriculture</b>			<u>1,308,071</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 4,945,271</u></b>

See accompanying independent auditor's report



**JACKSON COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2008

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Jackson County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2008

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued - unqualified

Internal control over financial reporting:

- Material weakness(es) identified \_\_\_\_\_yes \_\_\_\_\_X\_no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_\_\_X\_none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_yes \_\_\_\_\_X\_no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_\_\_X\_no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_\_\_X\_none reported

Type of auditor's report issued on compliance for major programs - unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

\_\_\_\_\_yes \_\_\_\_\_X\_no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553/10.555/10.559  
84.027/84.173  
93.585

Child Nutrition Cluster  
Special Education Cluster  
Title XX SSA Empowerment Zone

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_X\_yes \_\_\_\_\_no

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
Year Ended June 30, 2008

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**Section II – Financial Statement Findings**

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No matters were reported.

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**Section III - Federal Award Findings and Questioned Costs**

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No matters were reported.

**JACKSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended June 30, 2008

Status of Prior Year Findings

Finding 07-01 has been corrected.

# CHRISTIAN, STURGEON & ASSOCIATES, PSC

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDNACE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Jackson County School District  
McKee, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County School District as of and for the year ended June 30, 2008, which collectively comprise the Jackson County School District's basic financial statements and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and state audit requirements.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Jackson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Jackson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

We noted certain matters that we reported to management of Jackson County School District in a separate letter dated November 14, 2008.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Jackson County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Christian, Sturgeon & Associates, PSC*

London, Kentucky  
November 14, 2008

# CHRISTIAN, STURGEON & ASSOCIATES, PSC

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education  
Jackson County School District  
McKee, Kentucky

### **Compliance**

We have audited the compliance of Jackson County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Jackson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Jackson County School District's management. Our responsibility is to express an opinion on Jackson County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Jackson County School District's compliance with those requirements.

In our opinion, Jackson County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### **Internal Control Over Compliance**

The management of Jackson County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Jackson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jackson County School District's internal control over compliance.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Jackson County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Christian, Sturgeon & Associates, PSC*

London, Kentucky  
November 14, 2008

**MANAGEMENT LETTER COMMENTS**

# CHRISTIAN, STURGEON & ASSOCIATES, PSC

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Members of the Board Education  
Jackson County School District  
McKee, Kentucky

In planning and performing our audit of the financial statements of Jackson County School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the District's internal control in our report dated November 14, 2008. This letter does not affect our report dated November 14, 2008 on the financial statements of the Jackson County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Christian, Sturgeon & Associates, PSC*

London, Kentucky  
November 14, 2008

**JACKSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER COMMENTS**  
Year Ended June 30, 2008

**General**

Payroll

- a. Statement of Condition – Quarterly Jackson County payroll tax forms were filed incorrectly.
- b. Criteria – Correct payroll forms must be filed with taxing authorities.
- c. Cause of Condition – The Payroll clerk failed to reconcile the actual amounts withheld from the employees' payroll checks with amounts reported on the quarterly payroll reports, resulting in an overpayment to the Jackson County occupational tax administrator.
- d. Recommendation – The payroll clerk should reconcile the quarterly payroll reports to the employees' W-2s at the end of the calendar year.
- e. Management's Response – The payroll clerk will receive a directive from the finance officer to establish reconciliation procedures. Failure to follow the directive will result in disciplinary action of the employee.

**School Activity Funds**

Annual Financial Report

- a. Statement of Condition – Two schools (Jackson County High and McKee Elementary) did not prepare a complete list of accounts receivable as of June 30, 2008.
- b. Criteria - The Redbook requires a list of accounts receivable (Form F-SA-15B) accompany the Annual School Activity Report.
- c. Cause of Condition - The bookkeeper just failed to determine and include all receivables for her school at June 30, 2008.
- d. Recommendation - The annual financial reports should be amended to include a complete and revised Form F-SA-15B.
- e. Management's Response – See management's response below.

Budgets

- a. Statement of Condition – Three schools (Jackson County High, Jackson County Middle, and Sand Gap Elementary) did not submit a budget to either the Superintendent or the School Board.
- b. Criteria - The Redbook requires the principal to submit an Activity Fund Budget (Form F-SA-4A) and an Internal Account Budget (Form F-SA-3) to the Superintendent by May 15 for the following year.
- c. Cause of Condition - The bookkeepers failed to prepare and submit the budgets within the appropriate timeframe.
- d. Recommendation - The activity fund budgets should be prepared and submitted to the Superintendent by the May 15 deadline.
- e. Management's Response – See management's response below.

Deposits Not Made in a Timely Fashion

- a. Statement of Condition - At one school (Jackson County High), there were several instances where bank deposits were not timely made.
- b. Criteria - Good internal control procedures requires timely deposit of cash received.
- c. Cause of Condition - There appears to be a general oversight by the parties involved.
- d. Recommendation - Redbook training should be provided for all bookkeepers and their replacements.
- e. Management's Response – See management's response below.

**JACKSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER COMMENTS - CONTINUED**  
Year Ended June 30, 2008

Purchasing

- a. Statement of Condition - At one school (Sand Gap Elementary), one instance was noted where the invoice was not cancelled properly, and one instance was noted where a purchase order had been prepared after the invoice date. At one school (Jackson County Middle School), one instance was noted where the amount paid was different from the invoice amount.
- b. Criteria - An effective internal control system in place would require that purchase requests and purchase orders be issued prior to the purchase and payment of items received, invoices be marked "paid" and signed by the principal when they are paid, and payment amounts match invoice amounts.
- c. Cause of Condition - It appears these deficiencies were a general oversight by the parties involved.
- d. Recommendation - All purchases should be initiated through the automated purchasing system, invoices should be marked "paid" and signed by the principal upon payment, and all payment amounts should agree to the invoice amounts.
- e. Management's Response - See management's response below.

Multiple Receipt Forms/Deposits

- a. Statement of Condition - At one school (Sand Gap Elementary), several instances were noted where the multiple receipt forms were not being filled out and given to the bookkeeper each time money is collected from students, and at two schools (Jackson County Middle and McKee Elementary), several instances were noted where the receipt had not been signed by the bookkeeper indicating that she had counted the money received.
- b. Criteria - Good internal control procedures requires a multiple receipt form be issued for all instances in which monies are received from several different students, and for receipts to be signed by all parties handling the money.
- c. Cause of Condition - It appears the persons in charge of collecting monies from students (typically, teachers) were not completing multiple receipt forms and the school's bookkeeper was not signing the form.
- d. Recommendation - Teachers, or other persons collecting monies from several students, should always complete a multiple receipt form to turn in to the bookkeeper with the money collected, and receipts should always be signed by all parties handling the money.
- e. Management's Response - See management's response below.

Management's responses to the Activity Fund findings are outlined below by school.

Tyner Elementary School:

Tyner Elementary School did not have any findings. Tyner Elementary will receive a letter of commendation.

Jackson County High School:

Jackson County High School has had some personnel issues. The principal had a major illness and follow-up surgery. The school secretary has also had some major health concerns.

We will conduct training for the new principal by the finance department. We will be sending a letter of reprimand to the secretary. Simple mistakes will not be tolerated in our district. Jackson County High School activity accounts will be audited every quarter by our finance department. We, as a district, have reorganized our finance department to allow the extra time necessary to audit school activity accounts. School activity and PTO budgets will be presented to the finance department for review before being submitted to the superintendent and Board of Education.

**JACKSON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER COMMENTS - CONTINUED**  
Year Ended June 30, 2008

**Jackson County Middle School:**

The school has made major progress in limiting audit findings. The findings will be reviewed by the finance department and the finance officer will discuss the findings with the appropriate staff.

Jackson County Middle School activity accounts will be audited every quarter by our finance department. We, as a district, have reorganized our finance department to allow the extra time necessary to audit school activity accounts. School activity and PTO budgets will be presented to the finance department for review before being submitted to the superintendent and Board of Education.

**McKee Elementary School:**

The secretary is new to the position and has done an outstanding job for her first year.

McKee Elementary School activity accounts will be audited every quarter by our finance department. We, as a district, have reorganized our finance department to allow the extra time necessary to audit school activity accounts. School activity and PTO budgets will be presented to the finance department for review before being submitted to the superintendent and Board of Education.

**Sand Gap Elementary School:**

The audit for Sand Gap Elementary has too many findings. The principal and the secretary will both be responsible for the incomplete work at the school level. The school level performance is unacceptable by the district.

School activity and PTO budgets will be presented to the finance department for review before being submitted to the superintendent and the Board of Education.

A letter of reprimand will be sent to the principal and the secretary. Audit findings of this magnitude can not and will not be tolerated in our district. Sand Gap Elementary School activity accounts will be audited every month by our finance department. We, as a district, have reorganized our finance department to allow the extra time necessary to audit school activity accounts. If major improvements have not occurred by the end of the second quarter, more severe personnel actions will be taken.

**JACKSON COUNTY SCHOOL DISTRICT**  
**RESOLUTION OF RECOMMENDATIONS OF PRIOR YEAR MANAGEMENT LETTER POINTS**  
**Year Ended June 30, 2008**

The prior year management letter contained conditions relating to the following:

**GENERAL**

1. Personnel Files
2. Inventory

**SCHOOL ACTIVITY FUNDS**

3. Annual Financial Report
4. Deposits Not Made in a Timely Fashion
5. Purchasing
6. Multiple Receipt Forms/Deposits

Procedures performed for the year ended June 30, 2008 did not indicate a recurrence of conditions 1 and 2. The District appears to have adequately addressed the recommendations that were made.

For conditions 3, 4, 5, and 6, these are repeat conditions for the year ended June 30, 2008.

# CHRISTIAN, STURGEON & ASSOCIATES, PSC

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CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board of Education  
Mr. Ralph Hoskins, Superintendent  
Jackson County School District  
McKee, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Jackson County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Jackson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Jackson County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Jackson County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Jackson County School District's compliance with those requirements.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 25, 2008.



## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Jackson County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate that an allowance for doubtful accounts is not necessary is based on from whom the receivables are due and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to make this determination and its reasonableness in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 14, 2008.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of the Board of Education and management of Jackson County School District and is not intended to be and should not be used by anyone other than these specified parties.

*Christian, Sturgeon & Associates, PSC*

London, Kentucky  
November 14, 2008